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FISCAL IMPACT STATEMENT

LS 7825

BILL NUMBER: SB 327

NOTE PREPARED: Feb 16, 2005

BILL AMENDED: Feb 15, 2005

SUBJECT: Property Tax.

FIRST AUTHOR: Sen. Hume

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *General Reassessment:* This bill delays the next general reassessment of real property by two years and requires general reassessments every five years thereafter. It requires the Department of Local Government Finance (DLGF) to approve a determination by assessors to not employ a professional appraiser for a general reassessment.

Annual Assessment Adjustments: The bill delays until 2006 implementation of annual adjustments of real property tax assessments. It amends the factors to be included in the annual adjustment rule of the DLGF. This bill allows assessors to employ professional appraisers to assist with annual adjustments. It also requires the DLGF to review and certify annual adjustments, establish local deadlines in the determination of annual adjustments, and provide training to assessors and county auditors in the verification of sales.

Property Tax Management System: This bill requires the DLGF to adopt rules for the establishment of a statewide integrated property tax management system.

State Takeover of Assessment Duties: The bill allows the DLGF to take over local assessment, reassessment, or annual adjustment activities if it determines that the activities are not being performed properly.

Sales Disclosure Forms: This bill renames the Assessment Training Fund as the Assessment Training and Administration Fund. It extends for four years the \$10 sales disclosure form filing fee and requires deposit of 40% of the revenue from the fee in the Assessment Training and Administration Fund instead of the state General Fund. The bill allows the Indiana Board of Tax Review (IBTR) to use money in the fund to conduct appeal activities.

County Reassessment Fund: This bill eliminates the county property tax reassessment fund and provides for funding of assessment activities through the general fund.

PTRF Funds Withheld: The bill directs the Department of State Revenue to withhold State Property Tax Replacement Fund (PTRF) distributions to counties for various reasons.

Taxpayer Representatives: This bill prohibits an appraiser or a technical advisor that serves a township or county from representing taxpayers in the county.

Exemption: The bill also authorizes a refund of property taxes paid by an exempt sorority that meets certain criteria.

Effective Date: Upon passage; July 1, 2005.

Explanation of State Expenditures: (Revised) *Property Tax Management System:* Under this provision, the DLGF would adopt rules before July 1, 2006, to establish a uniform and common property tax management system that integrates mass appraisal, county auditor, and county treasurer systems. The system would replace the current systems that serve these functions. The rule would contain a schedule for implementation of the system.

The DLGF would appoint an advisory committee to assist in the formulation of the rules. The DLGF would determine the number of members of the committee, which must include at least 1 township assessor, 1 county assessor, and 1 county auditor. All members of the committee would be entitled to reimbursement for traveling expenses and other actual expenses.

The DLGF would report an estimated cost to implementation the system to the State Budget Committee.

According to the DLGF, the department would need two additional full-time professional staff in order to implement this proposal. The estimated additional personnel expense for salary, fringe benefits, and indirect costs is about \$100,000 per year.

DLGF Takeover of Assessment: This bill would allow the DLGF to order a state-conducted assessment or reassessment if the DLGF determines through periodic inspections that a general reassessment or other assessment activities, whether in a reassessment year or not, are not being properly conducted.

If the DLGF orders a state-conducted reassessment, the DLGF must assume the duties of the county's reassessment officials. Before assuming the duties, the DLGF must transmit a copy of the order requiring a state-conducted reassessment to the county's assessment officials, the county fiscal body, the county auditor, and the county treasurer. Notice of the DLGF's actions must be published in a newspaper of general circulation in the county. However, the DLGF is not required to conduct a public hearing.

The assessment or reassessment duties of an assessment official in the county would be limited to providing the DLGF or its contractor with support and information. Township and county officials must make available all data, records, maps, parcel record cards, forms, computer software systems, computer hardware systems, and other information related to the assessment or reassessment of real property in the county. The information must be provided at no cost to the DLGF.

The DLGF may enter into a contract with a professional appraising firm to conduct an assessment or a reassessment. If a county or township has already entered into a contract with a professional appraising firm to conduct the reassessment, the contract must be treated as a contract of the DLGF. After receiving the report of assessed values from the appraisal firm acting under a contract, the DLGF must give notice to the taxpayer and the county assessor, by mail, of the amount of the assessment or reassessment. The notice is subject to appeal by the taxpayer and must include the taxpayer's rights. The DLGF must forward a bill for service provided under contract to the county auditor. The Commissioner of the Indiana Department of Administration, the Director of the Budget Agency, and the Attorney General have seven days to review and act on a contract of the Department.

If the DLGF or the contractor find that the land values determined for the county do not reflect the true tax value of land, the DLGF or the contractor must determine land values. The DLGF or the contractor must notify the county's reassessment officials of the land values.

A contractor may notify the DLGF if a county fails to pay the bill. The DLGF must verify the accuracy of the contractor's assertion and provide to the Treasurer of State the DLGF's approval of the contractor's bill. Upon receipt, the Treasurer of State must pay the contractor from money in the possession of the state that would otherwise be available for distribution to the county, including distributions from the Property Tax Replacement Fund (PTRF) or distribution of admissions taxes or wagering taxes. Money from the PTRF must be withheld first and then from all other sources

The DLGF may, in a contract amendment or an additional contract, require the contractor to represent the DLGF in appeals and to afford the taxpayer an opportunity to attend an informal hearing. After the hearing, the contractor would forward recommendations pertaining to assessment changes to the DLGF. A taxpayer must initiate the informal hearing by notifying the DLGF not later than 45 days after the DLGF gives notice to the taxpayers of the amount of the reassessment. The DLGF must send the results of the hearing to the taxpayer, the county auditor, the county assessor, and the township assessor. If the DLGF does not send the notice within 270 days, the DLGF may not change the amount of the assessment or reassessment and the taxpayer may appeal. The DLGF may adopt rules to implement the above provisions.

The overall impact of the above provisions is indeterminable and will depend on the number of counties for which a state-conducted assessment or reassessment is ordered.

Indiana Board of Tax Review: The IBTR would be permitted, under the bill, to contract with, appoint, or designate licensed appraisers, attorneys, level II assessor-appraisers, IBTR administrative law judges, or other qualified individuals to serve as special masters to conduct hearings on appeals filed by taxpayers in a county under a state-assessment order. The IBTR would be permitted to make final determinations without additional hearings by the board. Compensation for the contractors would be paid from county funds.

Annual Assessment Adjustments: Under current law, annual adjustments to real property assessed values will begin with March 1, 2005, assessments for taxes payable in 2006. The Department of Local Government Finance (DLGF) has adopted a rule establishing a system for annually adjusting the assessed value of real property to account for changes in value in those years since a general reassessment of property last took effect.

Under current law, the adjustment system must:

- (1) First take effect with 2005 assessments, payable in 2006;
- (2) Use objectively verifiable factors used in mass valuation techniques that are reasonably expected

to affect the value of real property in Indiana;

(3) Use as many adjustment percentages and whatever categories of percentages the DLGF finds necessary to achieve objectively verifiable, updated, just valuations of real property; and

(4) Prescribe procedures, including computer software programs, that permit the application of the adjustment percentages in an efficient manner by assessing officials.

Under this proposal:

(1) The adjustments would first take effect with 2006 assessments, payable in 2007, a one-year delay.

(2) Assessing officials would reevaluate factors that affect value, compute factors, and use mass appraisal techniques to estimate updated values.

(3) There is no specific requirement concerning the use of a certain number of adjustment percentages or categories.

(4) Computer software programs would not have to be prescribed.

(5) Assessing officials would be required to provide taxpayers with a notice of assessment increase.

The bill would require assessing officials to continue work to satisfy the deadlines contained in the rule. The DLGF would be required to notify county assessors of deadlines for the determination of annual adjustments for assessments in 2006 and for the submission of annual adjustments to the DLGF for review.

Under current law, the additional PTRC and Homestead Credit payments that are attributable to the annual adjustments are estimated at \$47.7 M in CY 2006. The delay under this proposal would result in state savings of that amount in CY 2006. The savings would amount to an estimated \$15.9 M in FY 2006 and \$31.7 M in FY 2007. There would be no change in state expenditures after FY 2007.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

This bill would require the DLGF to review and certify each annual adjustment. The DLGF would also be required to provide training to assessors and county auditors in regard to the verification of sales disclosure forms. These provisions would add to the DLGF's administrative duties. However, the DLGF believes that it can perform these functions with existing resources.

Explanation of State Revenues: (Revised) *DLGF Takeover of Assessment:* An official who fails to provide information requested by the DLGF or its contractor commits a Class A misdemeanor. The maximum fine for a Class A misdemeanor is \$5,000.

Sales Disclosure Forms: Under current law, the state Assessment Training Fund receives revenue from a portion of the filing fee for each sales disclosure form that is filed. Money in the fund is used by the DLGF to cover expenses for training local officials.

Under current law, the fees and distribution by year are as follows:

Prior to CY 2004 AND After CY 2005: Of a \$5 total fee, \$4 is deposited into the county sales disclosure fund and \$1 is deposited into the state Assessment Training Fund.

CY 2004 and CY 2005: Of a \$10 total fee, \$5 is deposited into the county sales disclosure fund, \$4 is deposited into the state General Fund, and \$1 is deposited into the state Assessment Training Fund.

Under the bill, the state Assessment Training Fund would be renamed the state Assessment Training *and Administration* Fund. The \$10 filing fee would be extended through the end of CY 2009. Beginning on July 1, 2005, all of the state's share (\$5) would be deposited into the new fund. The IBTR would be permitted to use part of the money in the new fund to conduct appeals or pay for appeal services.

FY 2004 revenues in the state Assessment Training Fund were \$221,888 at \$1 per filing. Revenues over the last five years have averaged around \$200,000 per year. If the fee is kept at \$10 (\$4 increase for the state) for the additional four years, then compared with current law, total state revenues would increase by about \$800,000 in each year from CY 2006 through CY 2009. Revenue for the state Assessment Training and Administration Fund would increase by about \$800,000 per year in FY 2006 through FY 2009 and \$400,000 in FY 2010. Revenue for the state General Fund would be reduced by \$400,000 in FY 2006.

Explanation of Local Expenditures: (Revised) *General Reassessment:* Under current law, the next general reassessment is scheduled to begin on July 1, 2007 and is to be completed by March 1, 2009 with tax billings first affected in CY 2010. Future reassessments are to be completed every four years after that. This bill calls for this reassessment to begin on July 1, 2009 and to be completed by March 1, 2011, which would first affect tax billings in CY 2012. The state would be put on a five year reassessment cycle after that.

As real property values are adjusted, the relative tax burden between real and personal property, between different classes of real property, and between properties within the same class also changes. Annual adjustments are meant to update assessed values to reflect market conditions each year. During a general reassessment, physical changes to properties are noted and assessed values are update to reflect both changes in market conditions and physical changes to the property. If the annual adjustments achieve their goal, then the real impact of the general reassessment would be the assessment of any physical changes to properties that were not picked up in the interim years.

A delay of the general reassessment could delay some assessment updates or corrections to assessments on real property. This delay could cause some part of the tax shift that results from the general reassessment to be delayed. However, in most cases, any resulting tax shifts, or lack thereof, should be minimal.

Under current law, with the DLGF's approval, (1) an individual township assessor or (2) all of the township assessors along with the county assessor, may employ professional appraisers as technical advisors to assist with assessments or a reassessment. This bill would require the DLGF to approve a determination by assessors to not employ a professional appraiser for a general reassessment.

Annual Assessment Adjustments: Under current law, the administration of annual AV adjustments by local assessors is estimated to cost up to \$6 M, statewide. If the effective date of the adjustments is delayed, some of the additional duties that local assessors will have might be able to be delayed from 2005 to 2006. However, much of the work for March 1, 2006, adjustments will still have to be done in 2005. The delay could save some portion, but not all, of the expenses for annual adjustments in CY 2005.

The assessment notice requirement would generate an additional expense for counties. There are approximately 3 million parcels of real property in the state. At the standard letter rate of 37 cents, postage could amount to \$1.1 M per year. There would also be additional printing and stuffing costs associated with the notices.

The cost of local homestead credits would be affected by the delay. Ten Indiana counties provide local homestead credits funded with proceeds from the County Option Income Tax. The cost of the local homestead

credit will increase along with the state Homestead Credit under annual adjustments. The increase in CY 2006 under current law is estimated at \$3.9 M. The delay under this proposal would result in local homestead credit savings of that amount in CY 2006. The amount spent on local homestead credits reduces the amount available for distribution to the civil taxing units in the county. So, the \$3.9 M savings would be distributed to local civil units.

County Reassessment Fund: The bill abolishes the county reassessment fund after 2005. Existing cash balances in the county reassessment fund on December 31, 2005 would be transferred to the county general fund.

Beginning in 2006, all expenditures for a general reassessment that were payable from the reassessment fund would be payable from the county general fund. Expenditures for making annual adjustments and verification of sales disclosure forms would also be paid from the county general fund. The county council would be required to appropriate the necessary funds to pay for employment expenses related to annual adjustments. (County councils must currently appropriate the necessary funds to pay for employment expenses related to general reassessments). Under current law, appropriations from the county reassessment fund by the may be approved by the county fiscal body only after review by the county assessor. This bill would remove the county assessor's review of these appropriations (which would be made from the county general fund under the proposal.)

The bill would require the county fiscal body to impose a levy each year that is sufficient to pay the cost of:

1. General reassessments;
2. Per diem and mileage payments to assessing officials who attend state training sessions;
3. Developing or updating detailed soil survey data;
4. Updating plat books;
5. Salaries or contract costs for staff of the county assessor, members of a county property tax assessment board of appeals, and assessing officials;
6. Making annual adjustments; and
7. Verification of sales disclosure forms.

Currently, the DLGF may raise or lower the reassessment fund levy if appropriate because the estimated cost of a general reassessment has changed. This bill shifts the DLGF's levy increase authority from the reassessment fund to the general fund and also allows the adjustment if the estimated cost of making annual adjustments has changed.

The bill also allows local assessors to petition the county fiscal body to increase the county general fund levy to pay the cost of (1) a general reassessment, (2) sales disclosure verification, or (3) processing annual adjustments. If the county fiscal body denies the petition, the assessor may appeal to the DLGF. The DLGF will hear the appeal and determine whether the levy is necessary.

The county general fund is subject to the county's maximum permissible levy. This bill does not grant any additional levy authority. Therefore, if the general fund levy is increased under any of the above provisions, the levy of other controlled funds would have to be reduced by a similar amount.

DLGF Takeover of Assessment: A contractor must file with the county auditor a duplicate copy of the bill submitted to the DLGF along with proof of the Department's approval. Upon receipt, the county auditor must immediately certify that the bill is true and correct without further audit, publish the claim, and submit the

claim to the county executive. The county executive must allow the claim, as approved by the DLGF, and the county auditor must immediately issue a warrant or check for the full amount of the claim. Payment of the claim is not subject to remonstrance and appeal.

Explanation of Local Revenues: *(Revised) Annual Assessment Adjustments:* Tax shifts between and within property classes that are associated with the annual adjustments would be delayed by one year under this proposal. Total local revenues would not be affected.

DLGF Takeover of Assessment: If county funds are insufficient to pay for an assessment or reassessment, the DLGF may increase the tax rate and tax levy of the county to pay the cost and expenses related to the assessment or reassessment.

If the county fails to pay the contractor, the Treasurer of State will pay the contractor from money in the possession of the state that would otherwise be available for distribution to the county, including distributions from the Property Tax Replacement Fund or distributions of admissions taxes or wagering taxes.

Sales Disclosure Forms: With the \$10 filing fee extended through the end of CY 2009 (as discussed in *Explanation of State Revenues*), revenues in the county sales disclosure fund would increase by about \$200,000 in each year from CY 2006 through CY 2009.

PTRF Funds Withheld: This bill would require the state to withhold percentage (as determined by the Department of Revenue) of the payments of PTRC and homestead credits if:

1. The county assessor fails to forward sales disclosure forms to the DLGF in a timely manner;
2. Local assessors have not forwarded Form 15 assessment information to the DLGF in a timely manner;
3. The county auditor fails to pay a contractor's bill under state-conducted assessment or reassessment;
4. Local assessors have not transmitted parcel level assessment data to the DLGF by October 1;
5. The county has not established a parcel number indexing system in a timely manner; or
6. A township or county official has not provided other required information to the DLGF in a timely manner.

Exemption: This bill would retroactively allow an exemption for a nonprofit sorority taxpayer for taxes due in 2003 and 2004 if:

1. The taxpayer was granted an exemption from property taxes due in 2001;
2. The sum total of taxes due in 2003 and 2004 exceeded \$60,000; and
3. The taxpayer would have qualified for an exemption in 2003 and 2004 if the owner had timely filed for one.

If the taxpayer paid the tax, it may file claims with the county auditor for a refund for the amounts paid from the county general fund. No interest is payable on the refund. The refund would reduce tax revenues in the year paid for the taxing units that serve the taxpayer.

State Agencies Affected: Department of Local Government Finance; Department of Revenue; State Budget Agency; State Treasurer; State Auditor; Indiana Department of Administration; Attorney General.

Local Agencies Affected: Local assessors; Counties.

Information Sources: Dan Mathis, DLGF, 232-3777; Fiscal analysis on administrative rule #02-0297 (50 IAC 21); Local Government Database.

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